

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 /087 W

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R 251147Z JUL 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1691

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 12011

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: BUNDESBANK VIEWS ON DOMESTIC AND INTERNATIONAL  
MONETARY QUESTIONS.

1. SUMMARY. THE BUNDESBANK IS BEGINNING TO SHOW SOME  
CONCERN REGARDING THE INFLATIONARY AND TERMS OF TRADE  
EFFECT OF A DEPRECIATION OF THE DM. IT BELIEVES THAT  
THE DOMESTIC ECONOMY IS NOW PASSING THROUGH THE BOTTOM  
OF THE RECESSION AND IS DETERMINED TO RESIST RISES IN  
BOND INTEREST RATES. THE BUNDESBANK IS RELAXED  
REGARDING INTERNATIONAL MONETARY REFORM. IT BELIEVES  
THAT WHILE GOLD, IMF QUOTAS, AND THE FUTURE IMF EXCHANGE  
RATE REGIME ARE ALL RIPE FOR DECISION, THE PRACTICAL  
IMPORTANCE OF REACHING (OR NOT REACHING) AGREEMENT THIS  
FALL IS LIMITED. END SUMMARY.

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2. IN COMMENTING ON - AND GENERALLY WELCOMING - THE

CURRENT STRENGTH OF THE DOLLAR ALL BOARD MEMBERS (EMMINGER, TUENGELER, IRMLER) TO WHOM THE FINANCIAL ATTACHE TALKED ON A RECENT VISIT TO THE BUNDESBANK WENT OUT OF THEIR WAY TO INDICATE THAT THE BUNDESBANK WAS NOT INTERESTED IN PUSHING THE DM DOWN FOR EXPORT AND DOMESTIC ECONOMIC POLICY REASONS. ON THE CONTRARY, THEY SEEMED TO BE MORE CONCERNED WITH THE TERMS OF TRADE AND DOMESTIC INFLATIONARY EFFECT OF A DEPRECIATING DM AND INDICATED THAT A DESIRE NOT TO PUT FURTHER PRESSURE ON THE DM WAS ONE OF THE MAIN REASONS WHY AT ITS LAST MEETING THE CENTRAL BANK COUNCIL HAD NOT AGAIN LOWERED THE REDISCOUNT RATE.

3. BUNDESBANK VICE PRESIDENT EMMINGER SAID THAT HE EXPECTED GERMAN GNP DURING THE SECOND HALF OF 1975 TO GROW BY ABOUT 3 PERCENT OVER THE FIRST HALF (IN REAL TERMS ON A SEASONAL ADJUSTED BASIS) WITH EXPORTS HOLDING STEADY AND DOMESTIC CONSUMPTION (BUT NOT YET INVESTMENT) PICKING UP. OTHERS AT THE BUNDESBANK ALSO THOUGHT THAT THE FRG WAS NOW AT THE BOTTOM OF THE RECESSION WITH A GRADUAL RECOVERY ABOUT TO START. IN THIS SITUATION THE BUNDESBANK IS DETERMINED TO CONTINUE TO RESIST THE RISE IN BOND MARKET INTEREST RATES. COMMENT: SINCE THE BEGINNING OF JULY THE BUNDESBANK HAS REPORTEDLY PURCHASED ABOUT DM 1.5 BILLION OF PUBLIC BONDS (I.E., 2.4 PERCENT OF THE TOTAL OUTSTANDING) IN OPEN MARKET OPERATIONS TO PREVENT A FALL IN THEIR PRICE.)

4. WHILE FINAL STATISTICS ARE NOT YET OUT, ORDERS TO INDUSTRY APPARENTLY TOOK A HUGE JUMP AT THE END OF JUNE AS FIRMS RUSHED TO TAKE ADVANTAGE OF THE EXPIRING INVESTMENT TAX CREDIT. BUT NO ONE KNOWS QUITE HOW TO INTERPRET THIS ORDER DATA SINCE A GOOD PART OF THE ORDERS MAY HAVE BEEN PRECAUTIONARY ONES TO ASSURE THE TAX CREDIT AND SUBJECT TO CANCELLATION IN THE FALL IF ECONOMIC CONDITIONS THEN DON'T SEEM TO WARRANT THE INVESTMENT.

5. CONCERNING INTERNATIONAL MONETARY REFORM, EMMINGER  
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SAID THAT IN HIS VIEW THE QUESTION OF GOLD, IMF QUOTAS AND THE EXCHANGE RATE REGIME WERE ALL CLEARLY RIPE FOR DECISIONS. ONLY THEOLOGICAL DISPUTES BETWEEN THE U.S. AND FRANCE WERE HOLDING THINGS UP, BUT IF THE MONETARY SUMMIT PROPOSED BY GISCARD WAS AGREED THERE OBVIOUSLY WOULD NOT BE ANY AGREEMENTS AT THE PRIOR INTERIM COMMITTEE MEETING THIS FALL. WHILE NOT ATTACHING ANY PRACTICAL IMPORTANCE TO HOW THE EXCHANGE RATE QUESTION

WAS RESOLVED IN THE IMF ARTICLES (IN THE SENSE THAT THIS WOULD NOT AFFECT WHAT COUNTRIES IN FACT WOULD DO), EMMINGER MARVELED AT THE WAY IN WHICH GISCARD WAS BUILDING UP A POSITION ON FIXED EXCHANGE RATES WHICH EVEN THOUGH IT WAS NOT WORKABLE IN PRACTICE OR EVEN IN FRANCE'S OWN LONG RANGE INTEREST, WOULD GIVE GISCARD A BARGAINING CHIP SIMILAR TO THAT PROVIDED BY THE FRENCH POSITION ON GOLD FOR WHICH OTHERS WOULD HAVE TO PAY A

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 12011

PRICE TO NEGOTIATE FRANCE AWAY FROM IN THE FUTURE. IN THIS SENSE EVEN PURELY VERBAL CONCESSIONS (REGARDING "ULTIMATE AIMS", ETC.) TO THE FRENCH VIEW ASSUMED A LIMITED IMPORTANCE.

6. CONCERNING U.S. BANKS IN THE FRG, TUENGLER EXPRESSED CONSIDERABLE IRRITATION REGARDING SOME OF THEIR CURRENT

OPERATION IN THE CONSUMER CREDIT FIELD WHERE HE SAID SOME OF THE U.S. OWNED BANKS THROUGH MODERN MARKETING METHODS ARE SELLING CREDIT AT UNFAIRLY HIGH RATES TO SMALL GERMAN CUSTOMERS.

7. MOST PRIVATE BANKERS TO WHOM THE FINANCIAL ATTACHE TALKED THOUGHT THAT THE DOLLAR WOULD REMAIN STABLE OR STRONG FOR THE TIME BEING, WOULD MEET INCREASING RESISTANCE POINTS IF IT ROSE TO \$1.00 EQUALS DM 2.55. ALMOST EVERYONE ATTRIBUTED THE DOLLARS STRENGTH MAINLY CONFIDENTIAL

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TO HIGH INTEREST RATES REINFORCED BY GOOD TRADE FIGURES, RUSSIAN DOLLAR PURCHASES, U.S. ECONOMIC RECOVERY AND THE SNOWBALL EFFECT OF A RISING RATE. PRIVATE BANKERS GENERALLY THOUGHT THAT THE FRENCH FRANK HAD NO CHANCE OF STAYING WITHIN THE EC SNAKE AT ITS PRESENT PARITY AND WAS BEING HELD THERE FOR THE TIME BEING ONLY BY THE VERY HIGH FRENCH INTEREST RATE.

8. AFTER THE VERY HEAVY (DM 6 BILLION) FLOATATION OF FOREIGN DM BONDS DURING THE FIRST HALF OF 1975, PRIVATE BANKERS GENERALLY EXPECTED A MUCH LOWER VOLUME (POSSIBLY DM 2 - 3 BILLION) DURING THE REMAINDER OF THE YEAR.

HILLENBRAND

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